

ORIENTATION
Tapes 5-6 A/B

SENATE COMMITTEE ON
REVENUE AND SCHOOL FINANCE
JANUARY 20, 1993 1:00 AM HEARING ROOM A STATE CAPITOL BUILDING

Members Present: Senator Tricia Smith, Acting Chair
Senator Brady Adams
Senator Ron Cease (departure 2:25)
Senator Rod Johnson (departure 2:45)
Senator Peg Jolin
Senator Paul Phillips
Members Excused: Senator Shirley Gold, Chair

Staff: Steve Bender, Legislative Revenue Office
Richard Yates, Legislative Revenue Office
Jennifer Belkle, Committee Assistant

TAPE 5 SIDE A

001 CHAIR SMITH called the meeting to order at 1:12 p.m.

004 DICK YATES gave an overview of Personal Income taxes. He stressed that this was a bare bones outline. Exhibit 1.

055 DICK YATES pointed out some of the tax credits. He indicated that some tax credits are motivators for certain desired behaviors.

100 DICK YATES went over tables that provide information regarding income vs. tax of Oregonians.

175 CHAIR SMITH inquired about retired citizens who live outside of the state for part of the year.

180 DICK YATES responded that if an individual lives in the state over 30 days and/or owns property, then they are considered a resident. Additionally, income earned outside of the state and non-residents who earn their income in Oregon are taxed as well.

227 DICK YATES pointed out that Oregon's Adjusted Gross Income (AGI) is growing at the rate of approximately 9%.

310 DICK YATES discussed both personal and corporate income growth.

350 CHAIR SMITH inquired regarding the non-growth of corporate income tax collection.

360 DICK YATES attributed this to a stagnate growth of business on both the state and national levels.

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TAPE 6 SIDE A

001 DICK YATES continued regarding personal income tax.

060 DICK YATES explained the non-resident, reciprocity tax credit.

085 DICK YATES indicated three areas that need further future discussion:

(1) rural medical practices (2) health insurance (employee) and (3) the crop gleaning credit.

128 DICK YATES continued his discussion on personal income taxes with respect to residency and mutually taxed income.

Question and discussion

195 DICK YATES began discussion of corporate income taxes. Exhibit 2.

240 DICK YATES explained the concept of a C corporation and the issue of "Oregon only" vs. Multi-state businesses.

325 DICK YATES moved on to the issue regarding Multi state corporations. He addressed the issue of Nexus which questions the legal right of the state to tax the income of a corporation. He posed the question of how to divide the taxes between the different states involved.

350 DICK YATES discussed the Corporate Excise Tax.

380 DICK YATES summarized the legal question regarding Nexus.

400 DICK YATES discussed the Multi State Tax Commission established to set standards for portioning the taxes between states.

TAPE 5 SIDE

B

001 DICK YATES continued his testimony regarding UDITPA (Uniform Division of Income for Tax Purposes Act).

009 DICK YATES explained the difference between business income and non-business income. He stated that the difference becomes important when allocating income to the states where the company does business. Business income is apportioned between all the states involved and non-business income is allocated to the state where the income producing activity is located.

Question and discussion

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100 DICK YATES discussed the concept of a unitary business. He explained that this involves two separate corporations which are commonly owned, one doing business in one state (not Oregon) and the second doing business in Oregon in addition to other states. The problem that arises is the corporation's ability to do its accounting so that the majority of income is shown in the nonOregon corporation.

145 DICK YATES went over the Oregon Corporate Excise Tax Return Form.

180 DICK YATES declared that there has been a change in the number and size of corporations paying in tax in Oregon.

190 DICK YATES pointed out that the term S no longer accurately indicates a small operation.

230 STEVE BENDER began discussion on Excise Taxes. Exhibit 3.

Question and discussion.

245 STEVE BENDER clarified that this discussion is limited to specific excise taxes due to: 1) their significant volume and

2) the fact that there are bills this session regarding these issues. He continued with information on the history of the cigarette tax and the distribution of the generated funds.

Questions and discussion.

355 SEN PHILLIPS inquired on the rationale and equity of the break down of the distribution.

380 STEVE BENDER explained the collection process of these taxes. He stated that the distributors pay the tax not the retailers.

TAPE 6 SIDE B

006 STEVE BENDER clarified that the basis of the cigarette tax is on unit sales. He explained that there is no inflation built into the system, so all excise taxes seem to grow slowly over time. The drop in consumption also accounts for the slow growth.

020 STEVE BENDER reminded the Committee that the cigarette tax does not include other tobacco products. In 1985, the legislature passed the "Other tobacco products" tax. All of these monies go to the State General Fund. This tax is based on the wholesale price of the product rather than the unit sales.

Questions and discussion.

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075 STEVE BENDER began testimony regarding alcohol taxes. He explained that there are two categories states fall into regarding the method of the sale of alcohol in their state. These two categories are licensed states or control states. Licensed states allow private companies and individuals to sell liquor and alcoholic beverages. Control states differ in that the state has a monopoly on the wholesale, distribution, and importation of distilled spirits. In Oregon (a control state) this agency is the Oregon Liquor Control Commission (OLCC).

100 STEVE BENDER defined distilled spirits as alcoholic beverages with 21% or more alcohol. He explained that there is not an excise tax on these products, but a mark-up. Alcohol beverages with less than 21% alcohol (beers and wines) can be sold privately but they are subject to an excise tax.

115 CHAIR SMITH inquired about the taxation status of local wineries.

117 STEVE BENDER explained that local wineries are exempt under the small winery exemption. If their production is under 100,000 gallons per year, the first 40,000 gallons that are sold in Oregon are tax free. There are only 5 out of 90 wineries in the state that sell more than 40,000 gallons.

130 STEVE BENDER expanded on the 3 different rates of alcohol taxation.

160 STEVE BENDER discussed liquor and the process of pricing. He stated that the OLCC sets the prices. The markup formula is discussed in Exhibit 3, page 3. The revenue from these mark-ups goes directly to general funds, both local and state.

196 STEVE BENDER discussed the distribution of this revenue.

Question and discussion.

351 CHAIR SMITH adjourned the meeting at 3:05 p.m.

J~rnifer Be e, Committee
Assistant
Kimberly Taylor, Office Manager

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Exhibit Summary

1. Yates, Income Taxes, 1-93
2. Yates, Issues with Multi-State Corporations, 9-6-90
3. Bender, Excise Tax Collections and OLCC Revenues, 1-93

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